

Message Text

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INFO AMEMBASSY STOCKHOLM

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SUBJECT: INFLATION AND THE BRATTELI GOVERNMENT

SUMMARY: IN ITS PREOCCUPATION WITH RISING INFLATION AND ITS CONSEQUENCES FOR THE MAJOR WAGE NEGOTIATIONS NEXT SPRING, THE BRATTELI GOVERNMENT HAS TAKEN A SERIES OF MEASURES TO COMBAT INFLATION WHICH APPEAR JERRY-BUILT, RAISING QUESTIONS ABOUT THE EFFECTIVENESS OF THE MEASURES AND, IN THE LONG-RUN, THE BRATTELI GOVERNMENT. END SUMMARY.

1. INFLATION HAS BECOME ONE OF THE MOST IMPORTANT PROBLEMS CONFRONTING NORWAY. PROJECTIONS DEVELOPED ABOUT TEN DAYS AFTER THE NEW BRATTELI LABOR GOVERNMENT TOOK OFFICE IN MID-OCTOBER INDICATED THAT THE RATE OF INFLATION WOULD RISE FROM 7-8 PERCENT IN 1973 TO 10-12 PERCENT IN 1974, IF NO ANTI-INFLATIONARY MEASURES WERE TAKEN, AND THE ISSUE
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HAS OCCUPIED MUCH OF THE GOVERNMENT'S ATTENTION SINCE.

2. THE GOVERNMENT SEEMS TO BE RUNNING SCARED--SCARED ESPECIALLY OF THE LABOR NEGOTIATIONS WHICH WILL TAKE PLACE NEXT SPRING AND WHICH WILL INVOLVE MOST NORWEGIAN WORKERS. THE UNIONS WILL PROBABLY BARGAIN INDIVIDUALLY IN 1974, ABANDONING THE USUAL PATTERN OF CONSOLIDATED NATIONAL NEGOTIATION. INDIVIDUAL BARGAINING IS EXPECTED TO PROVE MORE DIFFICULT THAN CONSOLIDATED NEGOTIATION AND THE LIKELIHOOD OF STRIKES BY DISSATISFIED UNIONS IS GREATER. UNIONS ARE EXPECTED TO FOCUS ON WAGE BENEFITS. LABOR PARTY LEADERS HAVE EXPRESSED SOME CONCERN THAT THESE NEGOTIATIONS WILL OFFER THE LEFTIST SOCIALIST ELECTORAL ALLIANCE THE OPPORTUNITY THEY HAVE BEEN SEEKING TO WEAKEN THE LABOR PARTY'S INFLUENCE WITH THE TRADE UNIONS.

3. THE REAL DISPOSABLE INCOME OF WORKERS HAS DECLINED SLIGHTLY OVER THE PAST TWO YEARS; FOR ALL INTENTS AND PURPOSES THERE IS NO UNEMPLOYMENT AND NO INTENTION OF INCREASING THE TRICKLE OF INCOMING FOREIGN WORKERS TO EASE PRESSURES (AS A RESULT WAGE DRIFT INCREASES BY EMPLOYERS HOPING TO HOLD ON TO WORKERS ACCOUNTS FOR HALF OF ANNUAL WAGE INCREASES); THE OIL BOOM IS EXPECTED TO ACCELERATE EXPANSION OF THE ECONOMY AND INFLATIONARY PRESSURES; AND WORKERS HAVE CHAFED UNDER THE SETTLEMENT PROVIDING FOR LESS THAN ANTICIPATED WAGE INCREASES TO WHICH THEY AGREED LAST SPRING IN THE HOPE OF CURBING INFLATION (IN RETURN, THE GOVERNMENT PROMISED TO INCREASE FOOD SUBSIDIES IF A SUBSTANTIAL RISE IN THE COST OF LIVING OCCURRED.) ALL THESE CONSIDERATIONS CONTRIBUTE TO THE PROBABILITY OF HIGH WAGE DEMANDS (UP TO 20 PERCENT) AND THE POSSIBILITY OF MORE STRIKES AND LABOR UNREST THAN NORWAY HAS EXPERIENCED FOR SOME TIME.

4. TAXES AND PRICES WERE PROMINENT ISSUES IN THE GENERAL ELECTION THIS FALL WHERE THE LABOR PARTY LOST HEAVILY, MAKING BRATTELI'S INCOMING LABOR GOVERNMENT DEPENDENT ON THE LEFTIST SOCIALIST ELECTORAL LEAGUE FOR A SOCIALIST MAJORITY AND CIRCUMSCRIBING HIS FREEDOM OF ACTION. UPON TAKING OFFICE BRATTELI WAS CONFRONTED BY A BUDGET FOR 1974 PROPOSED JUST WEEKS BEFORE BY THE KORVALD GOVERNMENT. THE KORVALD

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GOVERNMENT BUDGET WAS CONSIDERED RELATIVELY UNEXPANSIONARY (ELEVEN PERCENT INCREASES IN REVENUE AND SPENDING), AND BRATTELI CONTENTED HIMSELF WITH MINOR SHIFTS IN THIS BUDGET, REDUCING TAXES ON LOW AND MIDDLE INCOMES AND INCREASING THEM ON HIGHER INCOMES AND COMPANIES. IN DOING SO HE HOPED TO IMPROVE THE CLIMATE FOR THE COMING LABOR NEGOTIATIONS BY INCREASING LAGGING CONSUMER SPENDING WHILE DAMPENING BURGEONING CORPORATE INVESTMENT.

5. THESE BUDGETARY SHIFTS WERE INTENDED AS THE FIRST PART OF A "PACKAGE" IN PREPARATION FOR THE COMING LABOR NEGOTIATIONS. HOWEVER, BEFORE THE REST OF THE PACKAGE COULD BE PUT TOGETHER, RUMORS SPREAD THAT IT INCLUDED REVALUATION. SPECULATION GREW, AND THE GOVERNMENT DECIDED TO ALLOW ITS HAND TO BE FORCED AND REVALUED 5 PERCENT ON NOVEMBER 15. INFLATION AND THE COMING WAGE NEGOTIATIONS WERE GIVEN AS PRINCIPLE JUSTIFICATIONS. OVERRULED WERE ARGUMENTS THAT THE REVALUATION DECISION WAS TAKEN TOO PRECIPITATELY, WAS UNJUSTIFIABLE ON INTERNATIONAL GROUNDS, WAS BADLY TIMED, AND ITS EFFECTS WOULD BE DISSIPATED BEFORE THE WAGE NEGOTIATIONS. PRICES ON IMPORTED PRODUCTS WERE SUBSEQUENTLY FROZEN, BUT ENFORCEMENT WILL BE DIFFICULT. MOST RECENTLY FOOD SUBSIDIES TO OFFSET TAXES ON FISH, MEAT, AND DAIRY PRODUCTS WERE ANNOUNCED EFFECTIVE JANUARY 1.

6. DOCTRINAIRE REASONS WILL PROBABLY PREVENT ANTI-INFLATIONARY USE OF INTEREST RATE INCREASES, ALTHOUGH THE TRADITIONAL WEAPON OF CREDIT ALLOCATION MAY BE BROUGHT INTO PLAY, AND POLITICAL AND INFLATIONARY CONSIDERATIONS WILL LIMIT THE USE OF ADDITIONAL FISCAL MEASURES. MORE DIRECT CONTROLS ARE, THEREFORE, LIKELY IF FURTHER STEPS ARE THOUGHT NECESSARY.

7. THE FUEL CRISIS, WHICH WAS APPARENT AT THE TIME OF REVALUATION, HAS INCREASED ECONOMIC DIFFICULTIES. FUEL CUTS AVERAGING 25 PERCENT FOR INDUSTRIAL USERS ARE EXPECTED TO RESULT IN PRODUCTION CURTAILMENTS AND PERHAPS SOME UNEMPLOYMENT, AND FUEL PRICE INCREASES WILL RAISE COSTS AND INFLATION.

8. SO FAR BRATTELI'S ANTI-INFLATIONARY PACKAGE
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APPEARS JERRY-BUILT. IT HAS CHARACTERISTICS OF HAVING BEEN MADE FROM PIECES OF THE POLITICALLY POSSIBLE PASTED TOGETHER AS THE OCCASION AROSE OR CIRCUMSTANCES DICTATED. BRATTELI HAS PERHAPS BEEN FORCED TO YIELD TO ECONOMIC OR POLITICAL EXPEDIENCY, BUT HIS LACK OF A SYSTEMATIC PROGRAM AND HIS APPARENT VULNERABILITY ON ECONOMIC QUESTIONS COULD HAVE UNFORTUNATE LONGER-TERM CONSEQUENCES FOR THE LABOR PARTY'S ABILITY TO RULE. BYRNE

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